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August 15, 2008

Mr. Gary Van Meter
Deputy Director
Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Dear Mr. Van Meter:

Thank you for the opportunity to submit comments to the Farm Credit Administration (FCA) regarding the Rural Community Investments proposed rule recently promulgated by FCA. AgStar Financial Services strongly supports the proposed regulation and commends FCA for proactively addressing the needs of rural communities. As you know when congress created the Farm Credit System (FCS) it established a two-prong mission for the System. Historically, Farm Credit has focused on the portion of the mission which requires "making credit available to farmers and ranchers and their cooperatives". The second part of the mission is "to provide for an adequate and flexible flow of money into rural areas ... to meet current and future rural credit needs". AgStar is pleased that the proposed regulation addresses the second prong of the System's purpose. We urge the Agency to move forward with a final rule that closely tracks with the proposed rule.

Congress has recently recognized how essential it is that rural development needs be met and that the FCS should play a role in meeting those needs. In the 2002 Farm Bill congress authorized the ability of the System to participate in the Rural Business Investment Program. In the Food, Conservation, and Energy Act of 2008, congress expanded the role the System is to play by increasing the level of investments FCS can have in Rural Business Investment Companies. The proposed FCA rule dovetails with the direction expressed by congress in the above two Acts in that it allows FCS institutions to make investments in essential community facilities, investment programs that support the rural developing lending of commercial banks, and rural development projects that are guaranteed or sponsored by government or governmental agencies.

Further, the proposed rule has solid basis in the Farm Credit Act. The corporate powers of the System as set forth in 12 U.S.C. 2013 (15) and other sections of the Farm Credit Act expressly provide that Farm Credit institutions "shall have the power to ... make other investments as may be authorized under regulations issued by the Farm Credit Administration". This particular section has long been a part of the governing Act. AgStar appreciates the additional guidance FCA provided regarding making investments in the Information Memoranda FCA issued on June 25, 2004 and on January 11, 2005. In those

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Memoranda FCA stated one of the primary objectives of the guidance was to assist FCS entities in “more fully (achieving) their statutory mission to finance agriculture and related activities in rural areas by making greater use of their statutory investment authorities”.

Agriculture and rural communities are as dependent on each other as they have ever been. It is essential that not only agriculture but also the local communities remain healthy and attractive in terms of employment opportunities and essential services to entice young families to remain in rural areas. Many young farm families find it necessary to work off-farm to supplement their farm income and to provide their families with health and medical benefits. Without the local jobs and services the migration of people from rural to urban areas will likely continue. AgStar and other Farm Credit entities will not be able to fulfill its mission of supporting agriculture if we cannot also support the communities on which agriculture is so heavily dependent.

When as a precursor to the proposed rule, FCA authorized the System institutions to apply for participation in a three-year pilot program to make investments in agriculture and rural community bonds to meet the growing, changing, and diverse financing needs of agribusinesses and rural communities, AgStar eagerly applied for approval to participate because we recognize the increasing needs and interdependence of agriculture and rural communities. Under the terms and conditions of the pilot program, AgStar has developed two unique programs wherein we couple with local community banks to deliver a source of funding that enables banks to support the development needs of the local communities they serve. The working relationships we have built with local banks capitalize on the strengths that both FCS and banks bring to the table. Banks bring the knowledge of what the needs are in their local communities, and they have the contacts with local businesses and community organizations. They have a presence in towns and cities across the country that AgStar and other Farm Credit entities do not have. AgStar, as a member of the FCS, brings a source of funding for long-term fixed rate financing that banks do not have or do not care to access through other means. The combination of these two strengths allows us to forge joint efforts with banks to address financing requests that may otherwise go unanswered.

Acting under the terms and conditions of the pilot program, AgStar expanded its existing Agri-Access program from working with local banks in lending situations to working with banks by making investments in customers of the banks through the purchase of bonds. This program allows the banks to maintain their relationship with the customer while at the same time freeing up their capital by moving all or a part of the financing to AgStar through the issuance and purchase of bonds. AgStar currently works with 84 bank holding companies through our Agri-Access program utilizing our lending authorities. AgStar has made available to all of those banks access to funding through the investment authority under the existing pilot program. To date, approximately 20 banks have actively engaged the use of that additional funding source. Our intent is to expand our working relationship

with all of the Agri-Access banks to encompass both our lending and investment authorities. Examples of transactions that have closed or are pending as a result of Agri-Access teaming with banks utilizing bond investments include; seven retail stores leased to two major retailers in Wisconsin, Texas and Iowa, a multiple unit apartment complex in a rural community, warehouse and retail space in North Dakota, and an office building for a mental health doctor. In addition, a mixed-use senior living center and a paving operation were financed through the purchase of investments by AgStar, and both of those transactions were guaranteed by the United States Department of Agriculture. The total credit of these transactions that AgStar has financed or will finance, either in whole or in part, is \$35,170,000. These rural development projects have created jobs and assisted in bringing vitality to rural communities across the country.

AgStar Rural Finance is the second program AgStar has established to work with banks in Minnesota and Wisconsin. Through this program AgStar has invested or has committed to invest approximately \$50 million in rural areas. AgStar's Rural Finance program has established funding relationships with 10 community banks and we are in discussions with an additional 21 banks. As mentioned above, we plan to partner with local banks because of their intimate knowledge of development projects needed in their communities. AgStar's model is to work collaboratively with local banks to promote thriving and robust communities that can offer employment opportunities and provide essential community services to the local residents. The following are transactions in rural communities that have closed as a result of AgStar closely working with banks:

- rural meat-snack processing plant which brought opportunities for nearly 50 new jobs in a small community in need of additional jobs,
- funeral home in rural Iowa,
- new assisted living facility in Southern Minnesota,
- three new mental health facilities in small rural Minnesota communities,
- new drug and alcohol treatment facility.

In some of the examples listed above the local bank brought the transaction to Agstar because the dollar amount of the transaction was too large for the bank's hold limit and the bank desired to keep the financing local.

In addition, AgStar has worked or is working with other FCS entities and USDA, state, and local governmental agencies to finance one medical facility in St James, Minnesota, two additional hospitals and state fair grounds.

AgStar has found tremendous value in the community investment pilot programs that FCA authorized because it has given AgStar the opportunity to collaborate with local banks and governmental agencies to address the ever-increasing development needs of rural America. As can be seen by the projects described above that have been done in the short time the pilots have been authorized, there is no shortage of the needs that exist. When FCS works together with government agencies and local banks, a winning scenario is created that

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benefits everyone, especially rural communities. This regulation continues the framework that has been created under the pilot programs to build tremendous synergy between AgStar, local banks, and governmental agencies.

Again, thank you for the opportunity to comment and relay the examples of rural development projects that have come to fruition as a result of the pilot program and that can be expanded upon under the provisions of the proposed rule.

We are pleased that some of the banks and other lenders AgStar works with have sent letters to FCA in support of the proposed regulation and the programs AgStar has established to work with local community banks.

Respectfully submitted,

A handwritten signature in black ink, reading "David R. Hoelmer". The signature is written in a cursive style with a large, stylized 'D' and 'H'.

David R. Hoelmer
Sr. VP and General Counsel